

BCC Quarterly Economic Survey: recruitment difficulties and tougher trading conditions face firms amid sluggish UK growth

Based on the responses of over 6,000 businesses, the survey suggests that UK economic conditions remain sluggish, despite a modest improvement in activity in the second quarter of 2018.

In the dominant service sector, consumer-facing industries, such as hospitality and retail, continue to report tougher trading conditions. Cashflow and investment intentions are falling significantly for retailers in particular as [consumer spending, a key driver of UK](#) growth, continues to remain subdued.

In the manufacturing sector, the balance of firms reporting improved domestic sales rose in the quarter, and the balance of firms reporting improved orders increased to the highest level since Q1 2015. However, the size of the sector means that its contribution to UK growth remains limited. The balance of manufacturers reporting improved export sales and orders eased in the second quarter, suggesting that slowing global economic growth is forcing firms to look domestically for sales.

A number of the key forward looking indicators, if sustained, point to a subdued outlook. The number of businesses reporting that they are intending to invest fell in the quarter, and business confidence for both sectors also fell. The biggest concern for businesses, however, continues to be the difficulties they face when trying to access skills, with the percentage of firms reporting problems rising again.

All this shows the economy is in a holding pattern, with annual economic growth this year set to be the lowest since the financial crisis. Much more needs to be done to put the UK economy on a surer footing. The BCC calls for a push to fix the fundamentals for business – fixing the crisis-hit training system, improving connectivity, delivering infrastructure improvements, and incentivizing investment – to create a “Brexit hedge” for the economy. At the same time, the government urgently needs to [provide clarity on the real-world questions that businesses are asking](#) on the UK’s status after leaving the European Union, to give firms a clear path that would enable them to invest and grow.

Key findings in the Q2 2018 survey:

Manufacturing sector:

- The balance of firms reporting increased domestic sales rose from +17 to +22, while the balance reporting improved domestic orders also rose,

from +16 to +22

- The balance of firms reporting increased export sales fell from +30 to +24. The balance reporting improved export orders also fell, from +28 to +22
- The balance of firms increasing investment in training fell, from +22 to +19, while the balance of those increasing investment in plant and machinery held steady at +20
- The percentage of firms looking to recruit jumped from 67% to 77%, while the number of those struggling to recruit also rose, to 71%
- Cashflow continues to be a concern within manufacturing, with just +6% reporting improved cashflow. In construction, the balance falls to +2%
- The balance of firms expecting turnover to increase nudged down slightly to +47 (from +48)
- 65% of firms in the sector expect the cost of their raw materials to rise in the next three months
- Confidence that turnover will improve over the next twelve months eased slightly from +48% to +47% Confidence that profitability will improve over the next twelve months held steady at +35%

Services sector:

- The balance of firms reporting increased domestic sales rose from +20 to +23, while the balance reporting improved domestic orders fell slightly from +16 to +15
- The balance of firms reporting increased export sales also rose, from +13 to +15. The balance reporting improved export orders also rose slightly, to +12 from +10
- The balance of firms increasing investment in training fell slightly to +16 from +18
- The percentage of firms looking to recruit rose from 50% to 60%, but the number of those struggling to recruit also rose to 63% (from 60%)
- Cashflow is a concern, with just +9 reporting improved cashflow. Consumer-facing firms struggled more, with the number falling to just +4
- The balance of firms expecting turnover to increase in the next year nudged down slightly, from +42 to +40
- Among B2C firms, the balance of firms expecting to turn a profit is +21, compared to +43 for B2B firms
- Confidence that turnover will improve over the next twelve months eased from +42 to +40 Confidence that profitability will improve over the next twelve months decreased from +33 to +29

Commenting on the results, Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

“Amid growing international uncertainty, from escalating trade disputes to oil price rises, the UK economy continues to grow at a sluggish rate. Brexit is a key factor – but long-standing structural issues are also holding companies’ growth back.

“The availability of skilled staff remains the biggest issue that firms face. Unless the government gets a handle on the disarray in the training and apprenticeship system and sets out a clear immigration policy that enables

firms to cover vacancies, the economic potential of many areas across the UK will continue to be held back. Scrapping the harmful Tier 2 visa cap – which handicaps firms in every part of the UK – would be a swift and powerful statement of intent.

“Business needs clarity on Brexit, and a strong domestic agenda that creates a ‘Brexit hedge’ as we navigate turbulence over the next few years. Big, bold action is needed for the UK to buck the current slow-growth trend – with major new incentives for business investment, confidence-boosting infrastructure projects, and a concerted effort to slash the up-front cost of doing business, which is putting consumer-facing businesses especially under intense pressure.”

Suren Thiru, Head of Economics, added:

“Our latest survey indicates that UK economic conditions remain subdued. While the modest pick-up in domestic activity points to a slight rebound in growth from a weak first quarter, there remains little evidence in the current data to suggest a sustained upturn in the UK’s economic growth prospects.

“Activity in the key services sector remains moderate, with most of the main indicators still below their pre-EU referendum levels. While still high by historic standards, the easing in export sales in the manufacturing sector points to a tightening in trading conditions. With growth in key markets moderating and the impact of the post-EU referendum slump in sterling dissipating, the improvement in the UK’s trade position in Q1 may well be short lived.

“The latest results also indicate that cost pressures eased markedly in the quarter, suggesting that inflation will drift downwards over the near term. Significantly, there remains very little evidence that above target inflation is translating to stronger pay settlements, with weak productivity and the high upfront cost of doing business continuing to limit the extent wages are able to rise.

“Against this backdrop, the Bank of England’s recent rhetoric around raising interest rates continues to look ill-judged. With the UK economy seemingly stuck on a low growth path and inflation easing, it would be prudent for the MPC to provide greater monetary stability rather than undermining the UK’s growth prospects further.”

Ends

Notes to editors:

The BCC Q2 2018 QES is made up of responses from 6,037 businesses across the UK, and is the largest private business survey in the country. Firms were questioned between May 21 – June 11 2018 on a wide range of business issues, including: domestic sales and orders; export sales and orders; employment prospects; investment prospects; recruitment difficulties; cashflow; confidence; and price pressures.

Spokespeople are available for interview and a full QES is available from the press office.

How are balances calculated?

QES results are generally presented as balance figures – the percentage of firms that reported an increase minus the percentage that reported a decrease. If the figure is a plus it indicates expansion of activity and if the figure is a minus it indicates contraction of activity. A figure above 0 indicates growth, while a figure below 0 indicates contraction.

For example, if 50% of firms told us their sales grew and 18% said they decreased the balance for the quarter is +32% (an expansion).

If 32% told us their sales grew and 33% said they fell the balance is -1% (a contraction).

The British Chambers of Commerce (BCC) sits at the heart of a powerful network of 53 Accredited Chambers of Commerce across the UK, representing thousands of businesses of all sizes and within all sectors. Our Global Business Network connects exporters with nearly 40 markets around the world. For more information, visit: www.britishchambers.org.uk

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